Perceived value, transaction cost, and repurchase-intention in online shopping: A relational exchange perspective

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Abstract

This study proposes a framework to understand the impacts of both value-related and transaction cost-related factors on repurchase intention from online shoppers’ perspective. In particular, this study defines the construct of cost as a three-component conceptualization (i.e., information searching cost, moral hazard cost, and specific asset investment). Based upon empirical evidence on a survey of 887 online shoppers, this study shows that consumers’ perceived value and each cost component are positively related to repurchase intention. Importantly, information searching cost exerts the most significant influence on repurchase intentions among the four relational factors. The result suggests that providing sufficient cues to reduce consumers’ information searching cost is the core element of repurchase intention formation. This article closes with theoretical and practical implications.

1. Introduction

Over the past decade, companies reach customers across the web in many ways. Yet, they often face a basic challenge about how to acquire and retain customers, especially those focused on business-to-consumer (B2C) e-commerce (Bolton, Kannan, & Bramlett, 2000; Chen & Hitt, 2002; Jones, Mothersbaugh, & Beatty, 2000; Keaveney & Parthasarathy, 2001; Tsai & Huang, 2007).

In much of repurchase intention research, scholars often consider how transactional benefits (e.g., interface quality, effective web design, satisfaction, and lower price) affect repurchase intention (Anderson & Srinivasan, 2003; Jones et al., 2000; Keaveney & Parthasarathy, 2001; Ranganathan & Ganapathy, 2002). Although online stores try to provide lots of advantages to attract customers, most of them are losing money. The reason may be that superior product quality and reasonable prices may be not able to retain customers because competitors can easily imitate. Some satisfied customers still defect due to other psychological or social factors (Jones & Sasser, 1995; Neal, 1999; Oliver, 1999). Those transactional benefit factors only partially explain the cause of repurchase intention, and others remain to be a large space to explore. Therefore, it is crucial to find out what constitutes consumers’ repurchase evaluation As Bansal, Irving, and Taylor (2004) argue, there is a need to look beyond those transactional-type factors, and to include relationship factors in understanding consumers’ repurchase intentions.

Some scholars explore what influences online shoppers’ evaluation about repurchase from an e-store. The relational factors are on the basis of two theoretical perspectives: perceived value and the transaction cost economics (TCE). Although the importance of value on behavioral intention is meaningful in previous studies (Neal, 1999; Woodruff, 1997; Zeithaml, 1988), empirical research for examining the value—repurchase intention linkage in the context of online shopping is scarce. Additionally, while prior studies emphasize the impact of cost on online shoppers’ repurchase intentions and conceptualize the different types of switching cost, scholars often measure them as a unidimensional construct (Jones, Mothersbaugh, & Beatty, 2002). As Burnham, Frels, and Mahajan (2003) argue, examining a single facet of switching costs may not provide an accurate assessment of the construct or its relationship to other factors. In fact, the consumers involve various costs in the repurchase process. Process aspects of relationship development are central to the notion of relational exchanges (Jones et al., 2000; Sirdeshmukh, Singh, & Sabol, 2002). Prior studies identify three TCE-related costs (i.e., information searching cost, moral hazard cost, and specific asset investment) for developing longer-term interorganizational relationships (Chiu, 2010; Williamson, 1985). Yet, how those distinct transaction costs differentially affect repurchase intentions receive considerably less attention in B2C context, especially in the context of online shopping.

Furthermore, studies use both TCE and value perspectives independently to understand their influences on consumers’ behavioral intentions (Neal, 1999; Williamson, 1985; Woodruff, 1997; Zeithaml, 1988).
The perceived value perspective primarily focuses on the provision of relational benefits through value-inducing features, while the TCE perspective focuses on the requirement of transaction cost that occurred in the risky electronic environment. However, in the search for value obtained from online shopping, some transaction costs incur mitigating transactional hazards and opportunistic actions. Consumers' repurchase decision depends on both the perceived value and cost. Examining either one of the two factors in the research framework is unlikely to produce an adequate assessment of their relationships to other factors such as perceived value and repurchase intention. Thus, a close examination of the value- and cost-effects on consumers' repurchase intentions and their interplay in online environments is necessary.

This article attempts to explore the relational factors influencing online shoppers' repurchase intentions by proposing a framework based on the understanding of how the perceived value and the costs incurred in relational exchanges affect repurchase intention from the consumer's perspective. This study has the following contributions. First, this paper responds to the shift from a transactional focus to a relational one, and provides a theoretical and empirical extension to prior works in understanding repurchase intention. Second, this paper develops a three-component conceptualization of transaction costs, and measures their relative inference on consumers' repurchase intentions and perceived value. The three-component conceptualization of cost rooted in the theoretical framework facilitates a better understanding of their role on repurchase intentions and value. This study, thus, adds more robust explanation of cost-value-repurchase intention linkage to the existing literature.

2. Literature review and hypothesis development

Despite the importance of customer's retention, few empirical studies attempt to investigate what constitutes consumer's evaluation of repurchase intentions. Repurchase intention refers to the consumer's subjective probability of re-patronizing an online store, and is the major determinant of buying action. Of the few studies, they identify two precursors for mutual relationship development over time: consumers' perceived value (Bolton et al., 2000; Neal, 1999; Sirdeshmukh et al., 2002; Woodruff, 1997) and transaction costs (Chiou, 2010; Williamson, 1985). Consumers' perceived value is the core construct and foundation in a relational exchange, and is the perception of what expected gains and losses are in the repurchase process (Holbrook, 1994). Accordingly, the expected gains could be intrinsic attributes (e.g., product quality), extrinsic cues (e.g., marketing advertising), and higher level abstraction (e.g., convenience or emotional feelings) (Zeithaml, 1988).

In contrast, perceived transaction cost, arising from information asymmetry and specific asset investment may impede consumers to engage in relational exchanges. Specifically, perceived value includes relational benefits (e.g., quality, ease of use to shop) and sacrifice (e.g., money expended, time and effort consumption); transaction costs include the evaluative effort required to search information before repurchase, the effort required to prevent from being deceived when a repurchase proceeds, and specific asset investment (e.g., procedural knowledge to fulfill the transaction and loyalty programs) to maintain the ongoing relationship with an online store. In sum, these two factors constitute consumers' evaluation in the repurchase process. In addition to their effects on repurchase intentions, this study also attempts to investigate how the three transaction costs lead to value creation or value depletion through the intrinsic attributes, extrinsic cues, and higher level abstractions.

2.1. Impact of consumer perceived value on repurchase intention

Academics attempt to use long-neglected perceived value to understand consumer's repurchase intention (Cronin, Brady, & Hult, 2000; Sirdeshmukh et al., 2002). With prevalence of the customer-driven perspective, research shows that perceived value plays an important role during exchange activities. Prior research embraces a variety of the conceptualization of perceived value. Zeithaml (1988, p. 14) defines perceived value as the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. In addition, Woodruff (1997, p. 141) describes that the perceptions of value typically involve a trade-off between what the consumer receives (e.g., quality, benefits, and utility) and what he or she gives up to acquire and use a product (e.g., price, sacrifices). Following Zeithaml (1988), this study defines consumer's perceived value as the overall assessment trade-off of the salient sacrifice/give and benefits/get components.

A valuable exchange is an important argument not only in offline environments but also in online ones. Indeed, consumer's value is the fundamental basis for all exchange activities (Holbrook, 1994) and can drive buying choice (Neal, 1999). For instance, Sirdeshmukh et al. (2002) posit that value acts as the superordinate consumer goal in relationship exchange.

In fact, in observing the practical marketing methods or strategies of online stores, many of them employ discount methods (e.g., no shipping charge, free sample gifts, and value discounts), complementary service (e.g., multiple delivery methods), and other incentives (e.g., diverse payment options) to deliver superior consumer value of e-shopping, and thereby raise consumers' repurchase intentions. In addition, research shows that consumer's perceived value in online shopping includes not only more benefits (i.e., quality and a friendly shopping user interface), but also less sacrifice (e.g., competitive price, time savings). For instance, Zeithaml (1988) finds that saving time becomes a pivotal concern of consumers in grocery shopping. When the perceived value is high, the consumers will remain with the same e-store.

Therefore, consumers' perceived value is likely to affect consumer repurchasing intention.

H1. As the consumers’ perception of value increases, their repurchase intention increases in online environments.

2.2. Impact of transaction cost on value and repurchase intention

Due to the unique electronic environmental context, the consumers still perceive online shopping as risky and uncertain, leading to the increase in transaction cost. For instance, via online survey of about 17 product categories, Bhatnagar, Misra, and Rao (2000) conclude that most consumers still perceive the online shopping environment as quite risky, and suggest that perceived costs related to perceived risk reduction become more prominent than convenience. In addition, Bart, Shankar, Sultan, and Urban (2005) assess consumer behavioral intents across 25 sites from eight website categories, and provide evidence that the brand strength through information searching and community advice can enhance online trust and purchase intent toward a website. Environmental complexity and unpredictability in online shopping cause sustainable transaction cost for the consumers to shop online.

Uncertainty arises from two aspects: one is information asymmetry, and the other is human behavioral assumptions (Williamson, 1985). As to online shopping context, information asymmetry describes that the online stores usually have more information than the consumers and causes at least two transactional hazards: adverse selection and moral hazard. Adverse selection arises because consumers cannot completely evaluate all information, and they are more likely to select bad products before a transaction has taken place. Moral hazard is a tendency to take undue risks because costs are not borne by the party taking risk, referring to lack of proper behavior of online stores after a transaction has taken place. For example, moral hazard occurs when online stores with more information about the merchants do not deliver the agreed-upon goods to the consumers after a repurchase has taken place.
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